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UNCLAS YEREVAN 000637

SIPDIS

SENSITIVE

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SUBJECT: RUSSIAN AMBASSADOR SPEAKS ON RUSSIAN INVESTMENT IN ARMENIA

1. (U) Sensitive but unclassified. Please protect accordingly. Not for internet distribution.

SUMMARY

2. (SBU) During his last press conference before the end of his posting, April 8, Russian Ambassador to Armenia Anatoliy Dryukov cited the large influx of Russian capital to Armenia during his tenure, saying that Russia had invested more than USD 300 million in Armenia since independence. Dryukov went on to say that Russian capital is behind nine of Armenia's 20 banks and makes up one third of Armenia's total authorized capital stock of Armenia's banking system. He commented that debt-for-equity swaps, in which the Russian state acquired former Soviet assets that Armenians complain now lay idle, were not unsuccessful as the Armenians claim, but are operating according to plan. End Summary.

RUSSIANS IN THE FINANCIAL SECTOR

3. (SBU) Dryukov claimed that Russian capital was behind nine of Armenia's twenty banks and made up one third of Armenia's total statutory capital. While there is Russian capital behind some of Armenia's non-transparent "pocket" banks, Russian bankers are also behind some of Yerevan's most active full service banks like Converse Bank, ArdShinInvestBank, UniBank (owned by Russian UniAstrumBnak), ArExImBank (owned in part by Russian ImpExBank) and ArmSavingsBank (seventy percent owned by the Russian state-owned VneshtorgBank). Russian oligarch Oleg Deripasko also owns IngoStrakh, a full-service private insurance company working in Armenia.

DEBT-FOR-EQUITY SWAPS TWO YEARS ON

4. (SBU) Confronted by a journalist, Dryukov said that he could not agree that Russia's debt-for-equity swaps were a failure. "The four enterprises transferred to the Russian State in consideration for the state debt of Armenia were military-industrial enterprises, which provide the defense needs of Russia," Ambassador Dryukov said. Dryukov added that the Russian budget had allocated USD 5 million to the Mars factory, a Soviet era military computer plant, and that there is ongoing production there. (Note: The Armenian government has long complained that the four enterprises transferred to Russia during the debt for equity swap are operating at very low capacity with a fraction of their former employees. The Armenian directors of two of these plants have told us that since their privatization they have heard nothing from their Russian bosses about planned investment or new orders. End Note.) Dryukov added, "as a result of obtaining the four enterprises of military-industrial complex, Russia's secret technologies are in fact transferred to Armenia, and citizens of Armenia may ultimately benefit from them as well." Dryukov also cited the success of the Armenia's energy assets that were transferred to partially state-owned RAO-UES in a different set of debt-for-equity swaps also in 2003.

COMMENT

5. (SBU) A significant proportion of the investments that Dryukov mentioned were made by Russian firms that are largely state-owned and have Russian government seats on the board. Still, even excluding these assets, many of which were the results of the debt-for-equity swaps of 2003, Russian private investment accounts for an important share of Armenia's financial sector. Russian foreign investment tends to be equity investment with little Russian control on the ground and, also, less transparency in ownership and corporate governance than we see in other foreign investments.

EVANS